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ESSAY No. 4.

REMARKS UPON THE RESOLUTION OF THE GOVERNMENT OF INDIA, AND THE COMMENTS THEREON BY THE "TIMES."—ON THE DIFFICULTY CAUSED BY UNLAWFUL COINAGE.—OTHER OBJECTIONS.—AND ON THE AVERAGE VALUE OF THE RUPEE.

1. The following remarks are intended to show that the proposals I have ventured to make in my former essays meet all the objections offered by the Government of India to the suggestions of the Calcutta Chamber of Commerce.

2. The first objection is referred to in paragraph 8 of the resolution, and states that Government are invited to take a measure calculated to enhance indefinitely the value of the rupee, and which must eventually lead to a fall in prices. This is true, and the defect of the proposal is implied in the remark made in the 16th paragraph, that, had it been asked that simultaneously with the closing of the Mints to silver, they should be opened to receive gold, the recommendation would not have been open to the objections that appear to the Governor-General fatal "in limine" to that actually made.

3. My proposal is precisely that which is approved by the Government of India, as it will be found by referring to essay No. 1, paragraph 13. It may be added that, although it is proposed to raise the rate of exchange by degrees, yet the effect of the whole measure upon the prices of commodities in India will be "nil," except in so far as they may have been altered by the depreciation, in which case only, and to that

extent and no more, they will be restored to their true quotations, estimating the rupees at their average value during the last 20 to 80 years.

4. It appears, further, from a perusal of the 17th and 27th paragraphs of the Governor-General's minute, that while deeply sympathising with the losses of individuals, and the disturbance of trade caused by the fall in the exchange value of the Indian currency, he is of opinion that there is nothing as yet in the nature of existing circumstances, notwithstanding the inconveniences and anxieties which they undoubtedly involve, demanding recourse to a measure so "costly," and of which all the requisite conditions are at present so uncertain as that above referred to, namely, the closing the Mints to silver, and opening them to receive gold.

5. If reference be made to my essay 2, paragraph 50, essay 3, paragraphs 51 and 52, and also the latter part of paragraph 42 of the present essay, it will be seen that there is really not the slightest uncertainty as to the results of the measures I propose. It is possible there may be some depression in the value of silver, after the exchanges have been restored to 2s. per rupee, and gold is freely brought in for coinage; but when it has ceased to affect the currency, any further loss of price of silver will be an unmixed benefit to the natives, and lead to its increased absorption for manufacture and ornaments.

6. In regard to the costliness of the measure, it is most probable that this opinion was founded upon the belief that a gold currency would be an indispensable and immediate accompaniment of a gold standard; but although it is true that it might be a convenience, yet it will be evident by a perusal of the remarks made in Essay 2, paragraph 43, and Essay 3, paragraphs 14 and 15, that it is by no means a necessity, and that not a single farthing need be expended upon it.

7. The sole inconvenience of the artificial value given to the rupees would be felt in small transactions with foreign traders,

by whom the token coins would be taken only at the price of the metal contained in them. It would not be felt in any other transaction; and this difficulty, which would be gradually removed as gold coins became plentiful in circulation, would be no worse than it is now, and irremediably so, for rupees are now only receivable in such transactions at their bullion value; while, if my proposals be carried out, it would be capable of easy remedy by the purchase and employment of gold bars, which, after the exchange with London has been raised to 2s. per rupee, will be procurable by the token rupees without sensible loss, first in Calcutta and Bombay, and afterwards in all principal cities, because the mere fact of a demand bill on London being worth 2s. per rupee makes the value of gold, which is the same as that of a demand bill, 38·14 as per standard ounce (that is at 2s. per rupee) at which price, or a trifle more, it is more profitable to bring it from Australia into India, than to take it to the Bank of England in London.

8. As this point is of some consequence, it may be useful to add the following:—When a telegraphic transfer of English money can be procured in Calcutta or Bombay, on payment of one rupee for 2s. sterling, it is more profitable to take gold thither from Australia for sale at 38·14 as per standard ounce, for the purchase of such transfer, than to carry it forward for sale to the Bank of England for £3. 17s. 9d.; because by the former plan the same amount in sterling will be realized in London more than a fortnight earlier; and hence the price of gold cannot exceed the 38 rupees 14 annas, when the exchange by transfer is at 2s., as that is a more favourable disposal of it than the price, to realize which, the great bulk of the produce of the Australian mines is sent to Europe. Hence it appears that Gold bars will be at all times procurable in India at "par" when the exchanges have been fully restored; and there is, therefore, no necessity, on account of the small trade carried on with outside dealers, for the forced adoption of a gold currency, which will

establish itself by degrees without any expense whatever. And with regard to the "costliness" of my proposals in other respects, it is unnecessary to repeat the statements made in paragraphs 26, (8thly) and 35 of this essay, to draw attention to the very large pecuniary advantages which are inseparably connected with them.

9. It is only necessary to notice one more remark of the resolution of the Government of India, namely, that contained in the 11th paragraph, to the effect that it is essential to a sound system of currency that it should be automatic. This truth has not been overlooked in the proposals I have made, as will be evident from the fact that, at the very moment that silver is excluded from the Mints, they are opened to gold; and the increase and diminution of the currency might be from that date regulated by the import and export of gold, and the self-acting operation of prices on the balances of trade.

10. It is true that, instead of the immediate restoration of the rupee in exchange to its full value, and the consequent simultaneous equivalence of gold at the rate specified, I have suggested for consideration the propriety of effecting the change by comparatively slow steps, in order to avoid the great distress and inconvenience to commerce that a sudden return to the true position of the currency would occasion; but this does not in any way interfere with the principles of the measures advocated, but only moderates the effect of the change, in consideration of the necessity of guarding the many and important interests at stake, from the consequences of sudden action. The Secretary of State *might* in an instant put an end to the heavy losses now incurred, owing to the abnormal depreciation of the Indian currency; and if that be not done, it will be only because, in considerate regard for other interests, he may refrain from taking advantage of the power which circumstances would undoubtedly give him, of exchanging the currency for nearly its full value; and consent for a time to continue to suffer loss, till by

a gradual process he may bring about the desired change, with the most ample notice to all parties who may be interested in it.

COMMENTS IN THE "TIMES" OF THE 25TH OCTOBER, 1876.

11. In a leading article of the "Times," under date the 25th of October, 1876, the misconception of the Government of India, leading them to suppose that the substitution of a gold for a silver standard would be "costly," is pointed out, but it is added that—

"If it was announced that after a certain day the coinage of silver would "be suspended, and that gold would be coined instead, for whoever might "bring it, in coins that would be exchangeable for rupees at a fixed rate, there "would be introduced into India the bimetallic system actually prevailing in "France, and a change in the currency would be gradually introduced. At "first no gold would be brought to be coined, but as the suspension of the "coinage of silver operated to raise the value of the rupees to the value defined "by the fixed rate of exchange of rupees and gold, gold would be more and "more brought to the Mint and find its way into circulation."

All this is quite correct if it be explained that the bimetallic system referred to is not the double standard formerly prevailing in France, and advocated by Mr. Cernuschi, but a single standard of gold with token silver coins, of which the 5 franc pieces are legal tender to any amount.

12. The article goes on—

"The process would be automatic and not costly, but it would be extremely "slow; and there is every reason to believe that its practical effects would be a "great disappointment to those who now recommend it. Silver bullion, deprived "of its last great open market, would fall far below anything we have already "experienced, unless the owners of the Neveda mines obtained a re-establish-"ment of a silver currency in America. At the same time, the primary effect on the "trade of India would be disastrous. The foreign trade of the great Peninsula "depends largely on the export of silver to it, which is exchanged for com-

"modities, and then coined and passed into the currency; but if silver was "summarily deprived of the quality of convertibility into money, this course of "trade would be closed, and some time, a time of great embarrassment and "distress, would pass before commerce became reorganised."

13. These remarks appear to be founded on a misapprehension as fatal as that of the Government of India with respect to costliness.

In the first place, no embarrassment or distress ought to occur if ample notice be given to the public of the intentions of Government in regard to any change.

Secondly, in consequence of the notice, all pre-existing engagements will be carried out without prejudice or injury; and, after the expiry of the notice, parties wishing to place funds in India will have the means of doing so to any extent, by means of the Secretary of State's bills, with absolute certainty, both as to the present and the future. This, it would appear, will not only not occasion embarrassment and distress, but the very opposite, and be an immeasurable improvement upon the present state of things.

14. It may be asked, how about foreigners, such as the Chinese, or others, who may possess silver, and wish to make use of it for remittance? To this it may be replied that the silver has its full market value in China, and everywhere else, and it may be exchanged for gold, and the latter sent to India: or for bills on London, where Council bills may be purchased; or it may be offered for sale to the government of India at the market price, to be bought by them, just as the British Government buy silver for the token currency here. A consideration of these various methods will, I trust, enable any one to believe that there need not be much embarrassment or distress, after due notice of the intended change, for the short period occupied in carrying it into effect.

15. The last paragraph of the Article begins as follows:—

"The transformation of the currency of a country like India is a task of "such dimensions that a case of proved necessity must be established before

"any Government can be persuaded to enter upon it. If the operation is to be "rapidly performed, it is extremely costly; if it is left to spontaneous action "it will be extremely slow. We adhere to the opinion, more than once "expressed, that it is entirely unnecessary."

16. It is not a little remarkable to find a writer, commenting upon an important despatch in which the Governor-General of India expresses his deep sympathy with the losses of individuals and the disturbance caused by the fall in the exchange value of the Indian currency, repeating his opinion that a measure which he has stated would not be costly, but only extremely slow, and which he must be aware would very speedily (it might be made immediately) put an end to all these evils, is "entirely unnecessary."

17. As the paragraph stands, the opinion strictly applies only to the introduction of the gold *currency*, which, it is true, is comparatively unnecessary; but it is evident from the next sentences that the author has omitted from his view the effect of the change of standard upon the rate of exchange, upon which all the losses and embarrassment hitherto experienced especially depend.

18. The writer's only grounds for this conclusion, in addition to the explanation, which will be presently noticed, appear to be his misapprehension as to the embarrassment and distress during the short period of transition; which, even if it were correct, would be no just argument against a measure of State policy calculated to affect all future time; and his remark that "if it (the change) be left to spontaneous action, it would be extremely slow." The first is a mistake, as before explained, and the second is the strongest argument in favour of the measure which its warmest advocates could advance. What could be more desirable than that the introduction of the gold currency should insensibly take place by the spontaneous action of the operations of commerce? It must, however, be remembered that it is not the alteration of the *currency*, but of the standard,

which is now so much needed, to put an end to all the embarrassment and difficulties to which commerce, individuals, and the Government have been and are exposed; the effect upon these would be as speedy as might be required. The introduction of the gold currency is of comparatively no importance, and would not injuriously affect any interest, however long it might be delayed. But the author adds—

"Every private difficulty arising from a diminution in the purchasing "power of silver, will be adjusted by the spontaneous action of those whom it "affects much more easily and efficiently than it could be by the intervention "of the Supreme Government, and the single difficulty will be the discovery of "the means for redressing the balance of the State income and expenditure."

19. Can the author of the above statements have seriously considered the following sentence in paragraph 4 of the carefully worded resolution which he criticises, "but it may be long before a stable adjustment of relative value is again attained, and meanwhile the mercantile world must suffer." Can he reflect upon the probability, almost certainty, that whatever the equilibrium may be, it will be below the former rate of 2s. per rupee, and that to whatever extent it rules under the former average, to that extent private interests will be permanently and hopelessly injured. These interests are very large, including the Indian Government debt, the annual remittance of 15 millions sterling, representing a capital of 300 millions sterling, and all the private capital invested in India. Does he also remember that, "redressing the balance of the State income "and expenditure" means, either extracting more tribute from the taxpayers, or restricting the development of the resources of the Empire? If my statements are correct, the whole of the depreciation and loss will be removed, speedily and for ever, by the measures—not necessarily irrevocable—I have recommended. This will be effected, not only without trouble or expense, but on the contrary, a considerable gain; and it can only be brought about by the action of the Government of

India; and although the writer states that every private difficulty would be "more easily" adjusted by the spontaneous action of individuals, it certainly appears to be a very hard problem, and one which the author might gain well deserved reputation and gratitude of the parties interested if he would solve, namely, how a large Indian Bank, having a capital of a million sterling employed in India, on winding up its business, or taking stock, can realize the number of pounds sterling spent in acquiring it.

20. If the Government of India wish the capital of parties in Great Britain, or any other gold standard country, to be freely invested in India, they will not be insensible to the great importance of guarding them against the severe losses and disappointments to which a difference of standards in the two countries unavoidably exposes them. It would be a great misfortune if the progress of India were to be restricted by the amount of capital advanced by the natives for its improvement; which, from the latter part of the 25th paragraph of the resolution, the Government of India seem to consider necessary; and it is a recommendation of my plans that this necessity would be altogether obviated.

ON THE DIFFICULTIES CAUSED BY UNLAWFUL COINAGE.

21. To get rid of every trace of doubt regarding the difficulty which has been objected to my proposals connected with the unlawful introduction into India of genuine coins manufactured in America or elsewhere, it is very important to shew that however great the temptation might be, it may be restrained within bounds, or reduced to nothing, at the pleasure of the financial Minister; but before entering upon

this explanation it may be desirable first to give a glance at the dimensions of the question.

22. Great Britain with her population of about 32 millions has a metallic currency at the rate of not less than £4 per head; France at the rate of £5 or £6 per head.

Both these countries have the assistance to a very large extent of all kinds of banking facilities, notes, bills, and cheques, innumerable.

23. India, 20 times the size of England, and 5 times that of France, in area, and more than 6 times that of either of them in population, is comparatively destitute of banking facilities in the way of deposits, cheques, &c.; and at present the great bulk of her transactions are from hand to mouth by ready-money cash payments. The people are industrious, active, and speculative, and the country fertile, and abundant in resources.

24. I have shewn in my first Essay that in the last 38 years the trade of India increased nearly four-fold. Its currency has doubled in 20 years, and this, before its canals, railways, and telegraphs have had time to *tell* on its commerce.

What would be a fair and moderate estimate of India's requirements for currency 40 years hence?

If it were equal to France, which is perhaps a more just comparison than England, its population of 230 millions would possess a currency (at £5 per head) of 1,150 millions sterling in value.

Supposing, instead, that its *commerce* should increase in the next 40 years only as much as it has done in the past 40, the corresponding value of the currency would be 560 millions.

Again, if the *currency* increased only in the same ratio as during the last 20 years, it would be four-fold its present value, and would amount, also, to 560 millions.

Now, if the currency increases from the present value of 140 millions sterling to 560 millions in 40 years, that would be by an addition to it at the average rate of $10\frac{1}{2}$ millions per annum.

25. My first Essay was written when silver was depreciated 12 or 14 per cent., and it appeared to me that 10 or 12 per cent. is not too large a reduction in value of a token currency, in the circumstances of India. I have since observed that the Americans proposed 9 or 10 per cent. for their token currency.

In my third Essay I proposed methods to reduce the difference of value to 10 per cent., if it should, by any chance, become necessary; but from information more recently obtained it seems very doubtful whether anything would be required.

26. Let us, however, suppose the worst. That there is a difference of 20 per cent. in favour of unlawful coinage, and smuggling, and that nothing has been done to reduce the temptation, as proposed.

1st. In the first place it appears that coining on a large scale in India could not fail to be prevented; and that importation from abroad could also be prevented; for the country is well surrounded by the ocean, and impassable barriers.

2ndly. But supposing that in spite of all efforts, a certain amount of unlawful coins did succeed in gaining admission into the currency. Are they likely to do so, continuously, to such an extent as to seriously affect an annual increment of $10\frac{1}{2}$ millions sterling? or say, even of 5 millions?

3rdly. If they did so, what would be their effect? This may be answered by saying that they would prevent the Government making additions to the silver currency to the extent they otherwise would, and to the amount of their own value. If we were to assume that *one million* of Rupees were smuggled into India annually, on the average, their effect would be the same as if an extra one hundred thousand pounds' worth of private bills on England were drawn in India. The rupees being exchanged for goods sent abroad, or bills, they

would, as imports into India, diminish a balance of trade favourable to India to their own amount, and retard the introduction of gold to the same extent; but they would do no other harm; unless we assume that they were brought in to such an extent as to turn the balance of trade against India.

4thly. The unlawful coins, unless as numerous as just supposed, would do no harm or injury to anyone except the Government. They would injure the latter by diminishing the additions to the silver currency proper to be made at certain times, and the profits of them—just as the smuggling of salt or opium would deprive the Government of the much larger profits of those monopolies.

5thly. But against the losses so sustained we must set off the profits necessarily resulting from the measures proposed. If we assume that out of the $10\frac{1}{2}$ millions annual addition to the currency, $8\frac{1}{2}$ millions are of gold, by commerce, and 2 millions of silver by the Government, that would imply (at 20 per cent.), a gain of £400,000 per annum, less the amount reduced by smuggling; which, if one million of rupees were brought in, would be 20 per. cent. of £100,000, or £20,000.

6thly. But even supposing that there were either no additions made to the silver currency, or that the gains to the Government under this head were reduced by smuggling to "*Nil*," what would be the gain to the Government of India by an early rise of the exchange to 2s. per rupee, and its *permanent* fixture at that rate, with only fractional deviations?

7thly. What would not be the relief and benefits conferred upon the public in India and England, and the officers and members of all ranks of Her Majesty's service in India?

8thly. The advantage under the sixth head may be reckoned by millions, if 20 per cent. be assumed; and if not, then the difficulty assumed is also diminished.

9thly. It must be remembered that if the difference of value or "seignorage" of the token rupees be too great,

measures might be taken to get rid of the difficulty as proposed by me (in pages 66-7, paragraphs 29 and 30), and also that, whether this be done or not, we have only to wait till, in due time, the gold coins take the lead in the currency, and the silver coins will then be restricted.

27. The object of all these representations is to shew that although there might possibly be some difficulty attending my proposals, yet that the objection of unlawful coinage and smuggling does nothing more than threaten to diminish one—and that the smallest one—of the enormous advantages and gains which they would secure both to the Government of India, Her Majesty's services, and the public in general engaged in our vast and daily increasing Indian trade. I hope, therefore, that it will be admitted that although it is possible the unlawful coiners and forgers (paragraph 18, page 39) might give us some trouble, yet my proposals would, nevertheless, succeed in producing an incalculable amount of good, and very large financial gains, in spite of them.

28. But in addition to the arguments already advanced, let us suppose that the apprehensions connected with the difficulty of unlawful coinage are still not removed; that on the permanent settlement of the value of silver as compared with gold, the intrinsic value of the rupee should be very far below its current worth, and that it is feared the profit might be so great as to make it a tempting speculation to run the blockade of all the preventive measures the Government may establish to exclude foreign-made coins from the country.

Under these circumstances it would be desirable to draw attention to two facts:—

First. That, as before observed, foreign made genuine rupees, if they did gain access to the interior of India, in all but excessive numbers—for instance, to any extent short of the whole balance of trade of the Empire—would do no harm to any one excepting the Government, and to them only by

retarding the introduction of gold, and depriving them of the profit arising out of the coinage of gold and silver at the Mint.

Secondly. That by carrying out the principles suggested, (3rd Essay, paragraphs 27 to 30) for the case of an excessive difference between the current and intrinsic value of the coins, and by a timely adjustment of the rate of exchange, the temptation itself may be reduced to *nothing*, or kept within such limits as may be known to be quite safe.

29. The main difficulty in settling the details of the introduction of a gold standard for India, in such a case, arises from our ignorance at present of what may be taken to be the future permanent value of silver as compared with gold, and also what the amount of temptation our preventive measures will be sufficient to overcome. In my pamphlet I have taken it for granted that a difference of 10 per cent. between the current and intrinsic value of the rupees would not be too great; assuming that the Government would, through the agency of the Customs, both in India and Ceylon, have no difficulty in preventing the introduction of coins of foreign manufacture, and would also put a stop to those of native Indian mints; for it must be remembered that unlawful coinage of genuine rupees cannot be profitably carried out except upon a large scale; and their importation into India, if it take place at all, must be on a large scale also.

30. The suggestion above referred to, which was made to meet the event of an excessive permanent reduction of the value of silver, compared with gold, was the gradual dis-rating of the rupees, coupled with the issue of new coins at a seignorage of ten per cent. It was proposed to effect this depreciation of the current value of the present coins by slow degrees, in order to create the least possible disturbance of existing contracts, and to afford ample time for the progress of events to show conclusively what would be a proper final estimate of the future permanent price of silver, whereby to fix the weight

of the new token coinage. For this purpose the cumulative depreciation of one per cent. per annum was suggested, but this might be much increased, if it were desired, without any serious ill effects.

31. The process of dis-rating might be carried on till the current value of the coins had been reduced very nearly to their intrinsic value—it might be carried even somewhat lower; and they would then be brought to the mints freely for sale and for conversion into the new token currency, at a considerable profit to the State.

In the meantime the former Company's rupee would hold its place in all public and private accounts as an imaginary coin, or money of account, in the same manner as the "current rupee" was, when in use in the beginning of the century.

32. It will be understood that these measures would be only called for in the event of the permanent price of silver, as compared with gold, being so very greatly reduced as to make it a serious difficulty to prevent the introduction of unlawful coins, and very serious loss being thereby occasioned. It is obvious that by the time the current value of the coins had been reduced to their intrinsic worth, all temptation to unlawful coinage would be at an end. There also is another circumstance which would tend to diminish it.

33. What is now referred to is the rate of exchange. It will have been understood from what has been formerly said on this subject, that from the moment that it has been declared that no more silver will be received into the Indian Mints, but only gold at the rate of 2s. per rupee (Act 17 of 1835 having been repealed), the Secretary of State will have a monopoly of a very large part of the means of remittance; and that from 17 to 20 millions sterling per annum will be remittable to India only by means of Council drafts upon the Indian Treasury. It would be quite *practicable*, therefore, for the rate to be fixed at once, at nearly 2s. per rupee, and the public could not practi-

cally avoid purchasing the Bills, and making remittances at that rate. But to do this suddenly would create a shock and disturbance of commerce even greater than that already experienced, and on many grounds it would be very desirable that so great a change should be introduced by degrees.

34. There must be so many circumstances of which I am unqualified to judge, which ought to be taken into the consideration of the course to be pursued, that I would not presume to express an opinion as to the details of the measure to be finally adopted by the financial authorities. The following remarks are therefore merely intended as an illustration of the subject:—

Supposing it were decided that the rate of exchange should be gradually raised to 2s. per rupee, or as near that amount as practicable, by successive steps of $\frac{1}{4}$d. per rupee per quarter, and that notice of 6 months should be given previous to the alteration.

35. If the rate of exchange at the time of the first notice were 1s. 9d. per rupee, it would, at the above progress, take $3\frac{1}{4}$ years, including the notice, before it arrived at the full rate of 2s.; and, reckoning drafts to the amount of 15 millions per annum, the loss incurred by this considerate postponement of the rise, as compared with an immediate enhancement, would be about $3\frac{1}{2}$ millions sterling. If only three months' notice were given in the first instance, nearly half-a-million sterling of this would be saved. But it ought to be added, that the losses here spoken of are not real losses at all; they only indicate the amounts by which the gains, in comparison with the present state of things, would fall short of the full gains of an immediate and sudden bound of the exchange to 2s. per rupee. In both cases the actual gain by an immediate raising of the rate, as compared with a continuance of the present state of things, for $3\frac{1}{4}$ years, would be £6,125,000, but it would be reduced, in the first case, by £2,609,375, in the second by £3,078,125.

It must be added that after the rate has risen to 1s. 10d. there will be an additional gain upon all the remittances made in payment of money on account of railways.

36. It will be obvious that when the rate of exchange is to so great an extent subject to be influenced by the proceedings of the Government, it would be very desirable that ample notice should be given to the public of their proposed course of action. On the other hand, unless there be either some considerable uncertainty, some restriction of the issue of bills to the bonâ fide wants of trade, or very considerable delay, it would be difficult to avoid the inconvenience of speculative purchases on a large scale to secure the profit of the rise, when the latter could be certainly depended upon. This may perhaps be best obviated by special arrangements.

37. It must here be noticed that until the rate of exchange has risen to nearly 2s. per rupee, no gold will be taken to the Indian Mints; and also that at times it may be necessary for the Council bills to be disposed of at a somewhat lower rate than two shillings per rupee, when gold can be delivered in India at that price.

38. But the chief point which has induced me to touch upon the question of the rate of exchange is to shew how by its action it might, together with the dis-rating of the coins, in case of need, *annihilate* all temptation to unlawful coinage.

For instance, supposing an excessive fall of the value of silver—so that the ordinary rate of exchange was 1s. 6d. per rupee. So long as that rate continued there would be no gain by unlawful coinage, because it would cost more than the 1s. 6d. to procure the silver and manufacture the coins, and the rupees so obtained would only be worth the 1s. 6d. for which they might be had by bills; but if, while the price of silver remained the same, the rate of exchange were gradually raised towards 2s., the gains by illicit coinage of genuine rupees would begin and increase

pari passu with the advance in the price of the rupee. On the other hand, if, at the same time the dis-rating of the coins were carried on with equal rapidity as that noticed above, paragraph 34, viz., ¼d. per quarter, or 4 per cent. per annum, the value at which the coins would pass in India would continually decline, as the profit by coining them, had they retained full values, would have increased; and as fast as the temptation grew on the one hand it would diminish on the other, and might thus be avoided altogether; but as I have before observed, this expedient is only intended for an excessive default in the value of silver; and, judging by the latest information on the subject, will probably never be required at all.

39. It is also important to observe, in answer to some objections, that during the one or two years or more delay, and until the rate of exchange has risen to such a point as to induce the delivery of gold to the Indian Mints, the quantity of silver absorbed by India will be precisely the same as if the coinage of it had not been interfered with.

40. The Secretary of State must on the suspension of coinage undertake to deliver bills at a fixed rate to all comers, and the whole of the remittances hitherto effected by bills, private drafts, and silver bullion, will be made by bills only. He will therefore have to grant remittances, not only for the same amount as formerly, but also for the sums sent by private drafts and bullion, and will thus have more money paid into the Home Treasury than he requires. The excess will be equal to the value of the bullion hitherto sent to India, and the Secretary of State will himself send it out to be coined on behalf of the Government. There will be thus precisely the same quantity sent to India as there would be under the existing system, till the time arrives at which gold can take its place, after which the currency will be for the future supplemented and regulated by that metal, and by any further additions to

the silver coinage which may be found necessary for the purposes of internal circulation.

41. But a doubt may still remain, namely, whether the whole currency of India can be permanently kept at a much higher value than the market worth of the materials composing it. Theoretically, it must be allowed that it might be done, as there are instances in which absolutely worthless tokens have acquired and, for years, maintained a high value; but in order to understand the case thoroughly, it is necessary to advert to the principle which is effective in all such cases, namely, that tokens, being legal tenders, necessarily exchange for the value of the minimum cost at which they can be brought into the market; which value they will retain so long as that minimum is strictly adhered to (Vide Essay 3, paragraphs 51 and 52, p. 75).

42. I venture, therefore, to submit, as an illustration, that if the Indian Government were to pass a law increasing the seignorage upon rupees from 2 to 5 per cent. (the price of silver remaining uniform) the value of the coins would gradually rise till, instead of being, as now, worth 2 per cent. more than silver bullion, they would be worth 5 per cent. more; and, in the same way, if the Government were to pass a law, as I propose, enacting that in future rupees should be only procured by the delivery of one-tenth part of the gold contained in the British sovereign, they would in future be worth one-tenth of a sovereign. We must not, however, fail to remember that the Government of India is not called upon at present to raise the value of the rupee, but only to prevent its depression. I may also mention that by my proposal the exchange with India would certainly rise to and remain constant at about 2s. per rupee, and when that has been experienced for some time, the large number of two hundred millions of rupees being annually purchased in exchange for gold at that price; it would be impossible for the currency, which is already of that value,

when it commands the same in the purchase of gold, to sink to any lower value in the purchase of commodities.

43. The doubt has been suggested whether it would be right that the Government of India should possess the privilege of issuing token money "ad libitum" without some effective restraint, such as that always in operation in regard to full weight metallic coins; whether, in fact, it would be safe to give them a power which might possibly be abused. This objection has been in some measure provided for by the note to para. 31 of the second Essay, page 47, where it is pointed out that if the supply of silver were overdone, the gold would leave the country. But the explanation may be carried a little further, by saying that after the exchange is restored in full, gold coins will continue to bear a small agio till they are in sufficient numbers for the wants of the country, and the increase or diminution of the agio will indicate whether the silver coins are in excess or deficiency; but if the Indian Government were to increase the supplies of silver coins till the gold pieces had left the country, the exchanges would afterwards begin to fall, and the Government would be not only reminded of their mistake, but punished for its commission. It may be remarked that it would be open to the legislature to enact that no silver should be coined but such as was sent to India, the produce of the overplus of payments for Council bills. When a surplus is required to supplement the rupee coinage, the amount of bills taken would be regulated with great precision by the Secretary of State, through a temporary relaxation of the rate of exchange; because merchants and all other parties will always take bills in preference to sending out gold, if the former are sufficiently cheap. If the Secretary of State were to abuse the power, he would flood the currency, raise prices, diminish the balance of trade, and, in the end, find a difficulty in procuring all the bills necessary for his purpose.

OTHER OBJECTIONS.

44. Referring to the increased production of gold a few years ago, and drawing a parallel between that and the present superabundance of silver, the question may be asked—Ought we to change at every variation of the value of the metals? To this I would, without hesitation, answer *No.* I would suffer a good deal rather than offend against the maxim to "leave well alone," although I believe it to be true that, *with the exception* of the inconvenience to merchants and others by the disturbance of arrangements previously made, there would be no more harm in changing the material constituting the standard of value of a country once a year, or even once a month, than there would be in changing from a wooden to a metal yard, provided there were no difference in the length represented by one and the other.

45. But the maxim "leave well alone" applies only when things are "well;" and my argument is that our present arrangement of the currencies of England and India is essentially wrong. It is not only now, when such enormous mischief has been suffered, but for years that I have advocated the importance of adopting for India the standard of England. Once having assimilated these important measures, there would be no reason for any further change.

If reference be made to the paragraph at the top of page 6 of my pamphlet, the latter part of the paragraph at the head of page 19, and paragraph 53, page 30, this view will be found distinctly stated.

ON THE AVERAGE VALUE OF THE RUPEE.

46. My proposal of the rate of 2s. per rupee was, in some measure, based upon the supposition that the Government of

India, on being satisfied that the measure of value had become seriously deranged, would think it their duty to take steps to restore it to what it was on the average, before the derangement began; and under this aspect of the question, that the careful analysis and calculation made by me of the latest information up to 1870, including the prices of silver and gold, and consequent value of the sovereign in rupees for 15 years to 1867 inclusive, would be sufficient.

47. That calculation, carefully carried out by three different methods, gave the value of the rupee within a very minute fraction of two shillings; although considerable deductions from the value of the sovereign, which were therein stated, were not brought into the account.

48. As doubts, however, have occurred to some whether, as a strict matter of justice, it would be right to fix the value of the Company's rupee so high as the equivalent of 2s., more especially with reference to old standing contracts, I have thought it desirable to gather into one view all the facts within my reach as to the true value of the coin at different epochs, from the beginning of the century until the present time.

49. The earliest information I have been able to obtain is of the year 1783, which is interesting from the circumstance of its being 10 years prior to Lord Cornwallis's permanent settlement. At the date referred to the Bengal Military Orphan Society was established, and the rate of exchange was at that time fixed at 2s. 4d. per sicca rupee. This corresponds with 2s. $2\frac{1}{4}$d. per Company's rupee.

50. In the year 1808 the Madras Military Fund was established, and the rate of exchange was fixed at 2s. 3·428d. per Madras rupee, equivalent to the present "Company's" rupee.

51. In 1811 in the first edition of Kelley's Cambist (page 117) it is stated that the "Sicca" rupee, which contained 175·927 grains of *pure* silver, was worth 24·566d., and the

"Current" rupee, which was an imaginary coin, or money of account, was worth at the same rate 21·177d., by which it appears that the latter represented 151·657 grains pure. Both these were calculated—valuing silver according to the (then) mint price in England—5s. 2d. per oz. standard. But it is added "the market price in India is generally much higher, making "this (the 'Current') rupee worth 2s. nearly, and the sicca rupee about 2s. 6d."

According to this statement, the present "Company's" rupee, which contains 165 grains pure silver, would have been worth 2s. 4·136d. as compared with the "Sicca," worth 2s. 6d., or 2s. 2·1115d. as compared with the "Current" rupee worth 2s. The mean of these two values is 2s. 3·125d.

52. The next fact we are acquainted with is the establishment of the Bombay Military Fund, on the 1st May, 1816, when the rate of exchange was fixed at 2s. 3d. per rupee, the coin referred to being equal to the present Company's rupee.

53. In a letter from the Honourable Court of Directors, addressed to one of the Funds in 1832, it is stated that this rate, and those previously mentioned, were correct and fair at the time they were fixed.

54. In the year 1819 the Government of India adjusted the ratio of gold to silver at 15 to 1, and altered the quantity of pure metal in the gold mohur to effect that object. At the rate of £3. 17s. 10½d. per standard ounce for gold, plus seignorage at 2 per cent., which was then charged for coining gold and loss of interest at 6 per cent. for 20 days, the value of the silver rupees, at $\frac{1}{15}$th of the gold coin, would be 1s. 11·9d.: but it is stated (in Prinsep's Useful Tables, page 4) that the gold coins were at that time at a discount, so that the rupees must have been worth more than 2s.

55. In the year 1826, when the Bengal Military Fund was established, the rate of exchange was fixed at 2s. 4d. per sicca rupee, equivalent to 2s. 2·250d. for the existing "Company's" rupee.

56. In the year 1832, the Court of Directors altered the rate of exchange for the Bengal Funds to 1s. 11d. per sicca rupee; at the same time allowing the advances made in England to be repaid at the end of 12 months, during which time the funds were receiving interest from the Government for the moneys in their hands, at the rate of 8 per cent. per annum.

In like manner the Bengal Orphan Society's Fund, which had been established with a rate of exchange at 2s. 4d., was reduced to 1s. 11d. per sicca rupee.

57. In these cases it appears, by the letter of the Honourable Court, that the rate of 1s. 11d. per sicca rupee was fixed because that was found to be the produce in England of sicca rupees sent home as a bullion remittance. They were sold at the price of silver prevailing at that time, of probably 59d.* per ounce standard, which would have yielded 1s. 11·377d. per rupee if the pieces had been all of full weight and fineness; the rate of 1s. 11d. representing only the value they actually realised.

But, if the actual bullion contained in the sicca rupee is worth 23·377d. in England, we must, in order to arrive at the current value of the coin itself in India, add to this amount the expenses of freight, insurance, loss of interest, and "seignorage," the aggregate of which, in 1832, when the best means of transmission was in sailing vessels round the Cape of Good Hope, could not have been under 8 per cent. Calculating these, the true value of the "sicca" rupee in India was at the least 25·247d., and of the present Company's rupee $\frac{1}{16}$th less, 23·670d.

In the year 1857 the above-mentioned rates were restored to 2s. per rupee.

58. It is stated in a Minute by Mr. Secretary Prinsep, dated

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* *Vide* Mr. Hollingbery's Treatise, para. 236.

20th November, 1841, that between 1835 and 1839 mint certificates for gold were freely paid into the Government Treasury at "par," and that sovereigns were sent in as bullion to the mint, and the certificates taken out at the Treasury in silver.

During the time referred to, from 1835 to the end of 1838, the gold thus brought in for coinage was subject to a charge of 2 per cent. seignorage, and a delay of 20 days, which, reckoning the interest of money 6 per cent., make the price of the rupees, of which 15 were taken instead of a mohur, costing 358.6d., (934·5d. × 102·$\frac{1}{3}$ × $\frac{165}{440}$) 23·9 or 1·11$\frac{9}{10}$d.

59. In the year 1841, gold had risen in value nearly 7 per cent., the 15 rupee mohur passing for 16 rupees in the Bazaar, This corresponds with a value of 1s. 10·194d. (the seignorage having been reduced to 1 per cent. at the end of 1838) per Company's rupee.

I have been unable to procure data to shew how long this rise in the price of gold lasted, but in 1853 it is shewn by the account No. 163 of the miscellaneous statistics, relating to the Government of India, published in 1875, that the exchange for that year, exhibited by the drawing of the Honourable Company's Bills, gave the value of the rupee at a trifle more than 2/0$\frac{1}{4}$, and the average of the 10 years ending 1862-3 is 2/0$\frac{1}{2}$, the average of the succeeding 10 yearsis 1/11$\frac{1}{4}$, ending in March, 1873, the average of the whole 20 years being 1/11·9. If we were to add to this sum a small allowance for interest during the transmission of the bills, the result would be more than the rate of 2/- per rupee, thus corroborating the results obtained by wholly different and independent investigation, referred to in paras. 46 and 47 of this Essay.

60. If we now endeavour to reduce the facts above given to an *approximate* average, by considering each rate to have prevailed till it was replaced by the succeeding one, multiplying the

years and rates together, and dividing the aggregate products by the total number of years, the result is as follows:—

From.	To.	Years.	Rate.	Product.
1783	1808	15	2/2·250	393·750
1808	1811	3	2/3·428	82·284
1811	1816	5	2/3·125	135·625
1816	1819	3	2/3·00	81·000
1819	1826	7	2/0·00	168·000
1826	1832	6	2/2·250	157·500
1832	1835	3	1/11·670	71·010
1835	1839	4	1/11·90	95·600
1839	1853	14	1/10·194	310·716
1853	1873	20	1/11·90	478·000
		80	—	1973·485

Now 1973·485 divided by 80 gives the average rate for the whole period as 24·668d. per rupee.

61. It must not be forgotten that there are two reasons of importance why the value of the rupee ought to be fixed at two shillings. One is, the incalculable convenience and advantage of arranging the Indian currency in a simple and easy relation to our own monetary system in England; and the second, the necessity on the score of justice, not to allow the taxes paid by the labouring classes to sink below the value they ought properly to command in the markets of the world, nor permit the land-holders under the permanent settlement to escape their just share of the burthens of the State, by making their payments in rupees of less than the proper value.

J. T. SMITH.

1*st November*, 1876.